NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
PROJECT SUMMARY - LOCAL DEVELOPMENT FINANCING FUND PROGRAM

APPLICANT: L/N CAC, LLC P40157

PROJECT USER(S): L3 Communications Corporation * - indicates relation to applicant
Cooper Medical Services, Inc.

PROJECT LOCATION: 100 and 200 Market Street Camden City (T/UA) Camden

GOVERNOR'S INITIATIVES: (X) Urban ( ) Edison ( ) Core ( ) Clean Energy

APPLICANT BACKGROUND:

L/N-CAC, LLC ("L/N" or the "Applicant") is a holding company formed in September of 2014, for the purpose of acquiring two buildings known as the Camden Aerospace Center. There is a two-story manufacturing building of 226,224 square feet and a three-story administration and engineering building ("A & E") of 350,554 square feet. Both buildings have historically been occupied by L3 Communications Corporation ("L3") starting in 1997. L3 vacated 131,000 square feet of space in July and amended their lease with an expiry of December 2024.

Cooper Medical Services, Inc. ("CMS") commenced a 15 year lease on 1/1/15 for the space vacated by L3. L/N closed on the acquisition in December of 2014 financed by Susquehanna Bank which provided a $28 million mortgage plus a $2 million bridge loan contingent upon the NJEDA approval to repay this note.

L/N is owned 51% by two individuals with the remaining 49% held by CMS. CMS is controlled by and their results are consolidated into The Cooper Health System ("CH"). CH is a New Jersey not-for-profit organization comprised of Cooper University Hospital and Cooper University Physicians.

CH was approved by NJEDA for a Grow NJ tax credit of $39.99 million on 12/9/14 under P 40148 pertaining to 353 jobs at risk of leaving NJ.

APPROVAL REQUEST:

The Applicant requests a ten year, $2 million loan from the Authority under the Direct Loan Program.

FINANCING SUMMARY:

LENDER: NJEDA

AMOUNT OF LOAN: $2,000,000

TERMS OF LOAN: Fixed at closing at 5 year US Treasury or 2% whichever is greater, plus 200 bp. Rate reset at end of year 5 at same index for an additional 5 years, based on 15 year amortization. EDA loan maturity 12/31/2024 to coincide with expiration of L3 lease.

PROJECT COSTS:

Acquisition of existing building	$32,670,000
Reserves	$800,000
Payments to Coopers Ferry	$575,000
Finance fees	$155,000
TOTAL COSTS	$34,200,000

JOBS: At Application 400 Within 2 years 0 Maintained 0 Construction 0

DEVELOPMENT OFFICER: D. Benns **APPROVAL OFFICER:** M. Conte

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
MEMORANDUM OF FINANCIAL STATEMENT ANALYSIS
DIRECT LOAN PROGRAM
Local Development Financing Fund

March 12, 2015

L/N-CAC, LLC
100 & 200 Market Street (aka 1 and 11 Federal Street)
Camden, Camden County, NJ 08103
P40157

Summary of Project Financing

Project

L/N-CAC, LLC ("L/N" or the "Applicant") is a holding company formed in September of 2014, for the purpose of acquiring two buildings aggregating 576,798 of rentable square feet known as the Camden Aerospace Center. One building is a two-story manufacturing building ("MB") of 226,224 square feet and the other is a three-story administration and engineering building ("A & E") of 350,554 square feet. Both buildings have historically been occupied by L3 Communications Corporation ("L3") starting in 1997.

The two buildings were originally constructed in 1993 on 21 acres of land and ground leased to Camden Center Urban Renewal Limited Partnership which was 100% owned by the NJEDA. Cooper's Ferry Partnership ("CFP") entered a purchase agreement with NJEDA in December of 2013 which was subsequently taken over by L/N. L3 has a sublease that runs through 2018, however L3 decided to downsize by vacating 131,000 square feet in the A & E building. An amended triple net lease was recently executed for ten years with L3 at $4.50 a square foot for the MB and $9.00 a square foot for the A & E. The L3 lease contains two 5 year renewal options. This rental income plus a new 15 year triple net lease starting 1/1/15 at $17 a square foot with Cooper Medical Services, Inc. ("CMS") represent the cash flow stream for L/N's purchase. L/N closed on the acquisition on December 30, 2014 financed by Susquehanna Bank ("SB") which provided a $28 million mortgage plus a $2 million subordinated bridge loan contingent upon NJEDA approval to fully repay this note. L3 has a sublease with Lockheed Martin for 50,000 square feet and with a Camden law enforcement department for 10,000 square feet.

L/N is owned 51% by two individuals, Ira Lubert 31% and Howard Needleman 20% with the remaining 49% held by CMS. CMS is a health care service provider with 5,500 employees. CMS is controlled by and their results are consolidated into The Cooper Health System, Inc. ("CH"). CH is a New Jersey not-for-profit organization comprised of Cooper University Hospital and Cooper University Physicians. Messrs. Lubert and Needleman are active real

estate investors, each possessing twenty years of experience and they own nineteen properties together encompassing over 1.2 million square feet.

CH was approved by NJEDA for a Grow NJ tax credit of $39.99 million on 12/9/14 under P 40148 pertaining to 353 jobs at risk of leaving NJ.

Request

The Applicant requests a ten year, $2 million loan from the Authority under the Direct Loan Program. On 12/1/14 SB approved and on 12/30/14 closed a $28 million mortgage loan and a $2 million, six month bridge loan (in anticipation of NJEDA approval of the proposed loan) which along with approximately $4 million in equity enabled L/N to acquire the property.

Source of Funds

Sources	**Amount**
Susquehanna Bank – Fixed rate for 10 years with a swap at 4.36%. 15 year term and amortization with call option at year 10. Rate reset at end of year 10 at prevailing swap rate or floating at one month Libor + 215 basis points with a floor of 3.5%.	$28,000,000
NJEDA – Fixed at closing at 5 year US Treasury or 2% whichever is greater, plus 200 bp. Rate reset at end of year 5 at same index for an additional 5 years, based on 15 year amortization. EDA loan maturity 12/31/2024 to coincide with expiration of L3 lease.	$2,000,000
Equity Contribution	$ 4,200,000
Total	$34,200,000

Use of Funds

Description	**Amount**
Purchase Land and Building	$32,670,000
Payments to CFP	575,000
Soft Costs and Fees	155,000
Reserves (1)	800,000
Total Project Costs	$34,200,000

(1) Reserve has been fully funded at the 12/30/14 loan closing held by SB to be used at their discretion for debt service or future tenant improvements.

Policy Analysis

This project scored a "Meets" for public purpose. This rating was primarily a result of the location being Camden which is one of five Garden State Growth Zone's in NJ and that the main project users operate as manufacturer, office and health care provider. There was no credit given for the planned maintenance of 353 CMS jobs (currently in Cherry Hill and Mt. Laurel being relocated to Camden which is deemed at risk of relocating to Philadelphia per the Grow NJ application and approval) plus another estimated 400 L3 jobs which exist at the site presently.

Scoring Guidelines

Financial	Rating		Public Policy	Rating
Ownership	Acceptable		Job Creation/Retention (4)	Weak
Management	Acceptable		Location	Strong
RMA Comparison (1)	Weak		Industry	Acceptable
Financial Trends (2)	Stable		Impact (5)	Weak
DSCR (3)	Weak		Project Support	Acceptable
Collateral Rating	Acceptable			
Policy Rating		**Meets**		
Risk Rating		**Watch 2**		

[1] - RMA comparison is weak as there is no operational history and thus no balance sheet data which makes comparison unavailable.
[2] – Financial Trends are considered stable as the lack of an operational balance sheet results in no meaningful data for numerous comparative items.
[3] – DSCR comparison is weak as there is no operational history as results are based on projections and exclusive of excess cash flow from the personal and corporate guarantors.
[4] – Job creation/retention is deemed weak as all tenant jobs exist in NJ and those specific to CMS have been previously counted for the Grow NJ incentive.
[5] – The project is not categorized in one of the types targeted for EDA assistance.

Strengths

- Cash flow based on the executed leases from tenants with sound financial capacity and this income is sufficient to service all the required payments on the loans to the project.
- Two personal guarantors have significant experience in real estate investment activities and have financial resources to support any shortfall in project economics.

Weaknesses

- New entity with no historical operating results.
- NJEDA security position is behind $28 million in senior debt & $4 million in swap exposure on the property.

Mitigants

- Space is 100% occupied with lease terms beyond EDA loan maturity and generates adequate debt service coverage.
- Tenant's financial condition is sound and loan to value based on current appraisal is deemed satisfactory at 63%.

Cash Flow Analysis

	PROJECTIONS	
($000's)	2015	2016
Rental income	5,221	5,221
Tenant Expense Reimbursements	3,796	3,881
Less: Vacancy 10%	-902	-910
Less: Expenses (1)	-4,358	-4,456
Total	3,757	3,736
Susquehanna Bank; $28MM, 4.5%, 15 years	2,570	2,570
Proposed NJEDA Loan; $2MM, 4%, 15 years	178	178
Total	2,748	2,748
Excess Cash Flow	1,009	988
DSCR	1.37	1.36
Excess Personal Cash Flow (2)	0	0
Global DSCR	1.37	1.36

(1) Annual expenses of the property are detailed below. Tenants do not reimburse Applicant for legal and professional fees, management fee and replacement reserve. The Applicant is responsible for maintenance and repair of the roof and structural portions of the buildings.
(2) Personal cash flow of the two guarantors is excluded from the above analysis due to large year to year fluctuations and discretion surrounding investment contributions/distributions and capital gains.

Annual Property Expenses	Amount
Cleaning and maintenance	$250,000
Insurance	$204,000
Legal and professional	$2,500
Real Estate Taxes	$870,000
Utilities	$1,576,327
Security	$720,000
Management fee	$234,949
Replacement Reserve	$500,000
Total Expenses	$4,357,776

Summary of the specific tenants in the two buildings:

Address	Tenant	Square Feet	% of total	Rent per month	rent/sf	lease start	lease end	lease type	annual income
200 Market	L 3	226,244	39	84,842	$4.50	7/15/2014	12/31/2024	NNN	1,018,098
100 Market 1st +3rd floors	L 3	219,554	38	164,666	$9.00	7/15/2014	12/31/2024	NNN	1,975,986
100 market 2nd floor	CMS	131,000	23	185,583	$17.00	1/1/2015	12/31/2030	NNN	2,227,000
Total		**576,798**		**435,091**	**$9.05**				**5,221,084**

The applicant provided the Authority with a projection of rental income and expenses for ten years. The NJEDA also utilized information from the appraiser and Susquehanna Bank to support the cash flow analysis above as well as the narrative discussion that follows. The underwriter did not sensitize the applicant's projections as leases are in place for 100% of the space for a term equal to or beyond the maturity of the NJEDA loan. There is a 10% vacancy factor included in the analysis. The ten year rental projection includes no increases each year. Expenses are anticipated to increase by 2.2% per annum.

The project location is between 2nd and 3rd streets in Camden between Market and Federal Streets and proximate to the waterfront. Parking is deemed adequate at the site as there are a total of 1,657 parking spaces in surface lots. 835 of the parking spots are assigned to L3 leaving 822 spaces for CMS. The project is in close proximity to public transit as the site is 3 blocks or less from two stations (Aquarium light rail station and Walter Rand Transportation providing access to the Patco line). Within one mile of the property are such attractions as Rutgers University Camden Campus, Campbell's' Field (home of the Camden Riversharks Independent League Baseball Team), The Adventure Aquarium, The Susquehanna Bank Center and Cooper University Hospital. Camden has been the subject of tremendous activity over the past year as projects like Holtec, Philadelphia 76ers and Subaru have been awarded significant incentives to bring business and employees to the city. A substantial office project near Campbell Soup headquarters know as Gateway Office Park could add up to 2 million square feet of Class A office space (situated on 50 acres one mile from the Waterfront Distinct). No definitive time table has been determined for this project.

Should the NJEDA be requested to extend our loan at maturity then there will be rollover risk with L3, however this is mitigated by expected market rates being above what is currently paid by L3. Additionally, the reduction in senior and NJEDA debt at the year ten scheduled maturity relative to the expected property value is well within lending norms. Furthermore, the anticipated rental rates would more than support loan payments which would be due under the revised and typical terms associated with an extension of the NJEDA loan. The average sales price of office properties over the past five years within a five mile radius of the subject (with no comparable sales within the immediate Camden area) is $78 per square foot. This figure is based on the subject property allocation of office space and industrial space at $115 a square foot for office and $23 per square foot for industrial. As such, the indicative value of this asset is in excess of $40 million. Based upon the financial capacity of L3 and their longevity at the existing location, default on the lease is unlikely. Even if this were to occur, the sponsors are

experienced and possess a significant network in the community indicative of a high degree of probability that they could find a replacement tenant in a timely manner. There is a limited supply of Class A or B office space in the Camden marketplace, especially at the sizes of space that this project offers with respect to the A & E building. Market information for office space over 100,000 square feet reflects average rental rates of $24 per square foot (and $18 per square foot for all office space in the market area). This supports CMS's $17 a square foot lease which is indicative of the economic incentives available as well as that several comparable properties have a more desirable location on the waterfront. Vacancy rates have been relatively low at 2% (using a one mile radius of the project site and excluding Philadelphia) and are significantly bolstered by the incentives under the New Jersey Economic Opportunity Act of 2014 with respect to businesses that locate in Camden. Given the priority of revitalizing Camden in New Jersey's economic master plan, it would seem unrealistic that these incentives would be terminated or severely reduced over the near to mid-term. The MB is relatively unique for the area and finding a tenant for that space may prove challenging should L3 decide to vacate at the end of the lease term in 2024. The current L 3 lease rates are below market reflecting their lease commencement back in the late 1990's with no incentives plus indicative of the improvement in the Camden market over the past few years. There are no rent escalations in the L3 lease, however the two five year extension options contain escalations. L3 must notify the Applicant a minimum of nine months prior to lease maturity if they do not intend to exercise the renewal option. L3 is a publically traded entity whose shares are listed on the NYSE and their debt is rated BBB- by Standard & Poors. Assets at 12/31/13 were $14 billion with a $6.1 billion net worth. Fiscal year revenues were $12.6 million with a net profit of $778 million.

Collateral

Description	**Amount**
Second Mortgage on 100 and 200 Market Street, Camden, NJ. Value based on the "as is" appraisal on November 25, 2014.	54,000,000
Loan to Value ($28 million Susquehanna Bank first mortgage plus $4 million in swap exposure plus $2 million NJEDA loan / $54 million)	63% (1)

(1) Using the $32.7 million cost of the property as the value would result in a LTV of 104%. Using an 8.75% capitalization rate on the projected year 10 net operating income results in a value of $40 million equating to an LTV of 85%.

Additional Security

- Second assignment of rents and leases.
- Joint and several unlimited personal guarantees of Ira Lubert and Howard Needleman. Corporate guarantee of Cooper Medical Services, Inc.

Personal and Corporate Guarantor

Ira Lubert's personal financial statement dated June 30, 2014 showed total assets of [redacted]

Mr. Lubert listed total liabilities of [redacted]

Based on Mr. Lubert's 2013 personal Federal Tax Return [redacted]

Howard Needleman's personal financial statement dated December 31, 2013 showed total assets and net worth of [redacted] as there were no liabilities reported. Assets consisted of cash [redacted]

Cooper Medical Systems, Inc.

CMS provided an audited financial statement for fiscal 12/31/13 and a management prepared fiscal statement for fiscal 12/31/14. The results of CMS are listed as a separate column as part of the consolidated results for The Cooper Health System, Inc. Assets at 12/31/14 are $35 million and consist of cash ($1.2 million), due to affiliates ($3.4 million), net property and equipment ($19 million) and other assets ($11 million). Total liabilities are $20.5 million with debt accounting for $15.5 million with $600,000 of this figure due within 12 months. There is also a $4.8 million long term note payable with no repayment details provided. Unrestricted net assets are $14.8 million at 12/31/14.

For point of reference, CH's total assets at 12/31/14 were $1.1 billion with $170 million in cash, $134 million in patient receivables and $439 million in net property and equipment. Total liabilities were $544 million of which debt amounted to $297 million (with $3 million due within one year) and net assets of $546 million at 12/31/14. CMS is not part of the obligated group pertaining to rated debt which is currently considered investment grade by Standard and Poors who assigns a rating of BBB.

Revenues for fiscal 2014 were $6.4 million representing a 6.8% growth from one year ago with operating margin of $213,000 after $570,000 in interest and $2.2 million in depreciation. 2014 results were bolstered by $9.4 million gain from the sale of fixed assets. 2013 results were a deficit operating margin and decrease in net assets of $482,000 as expenses were essentially flat and there were no asset sales.

For point of reference, CH's total revenues for fiscal 2014 were $949 million and $46 million in operating margin. CH reported a $77 million net increase in permanently restricted net assets. Included in this figure is the aforementioned $9.4 million gain on sale of fixed assets as well as $40 million in depreciation charges, $11 million in interest and $17 million in contributions. The year over year revenues climbed 7% from 2013 with operating profit double and a slight decline in the increase in net assets due to $36 million reduction in contributions.

CMS generated $3 million in cash flow in fiscal 2014 and their debt service aggregates $1.1 million resulting in $1.9 million in excess cash flow.

Checkings

There are no D&B or Superior OnLine reports available on the Applicant as they are a single purpose, recently formed entity that owns the Camden buildings.

Recommendation

Approve a $2 million direct loan based on the adequate cash flow generated by the existing leases as well as the financial resources exhibited by the guarantors of the project.

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